

Message Text

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ACTION EA-12

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FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC PRIORITY 4234

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DEPARTMENT PLEASE PASS TREASURY

E.O. 11652 NA

TAGS: ENRG, ID

SUBJECT: ECONOMIC ASSESSMENT OF INDONESIA: PETROLEUM SECTOR

REF: STATE 229513

1. SUMMARY: FOLLOWING IS EMBASSY ASSESSMENT OF LIKELY PETROLEUM PRODUCTION HERE OVER NEXT FEW YEARS. TREASURY ATTACHE SHARPE PARTICIPATED IN ASSESSMENT AND DISCUSSIONS WITH INDONESIAN AND AMERICAN PETROLEUM OFFICIALS AND HE FULLY CONCURS WITH CONCLUSIONS.

A) WE EXPECT OIL PRODUCTION TO REMAIN ABOUT CONSTANT OR SLIGHTLY INCREASE DURING CALENDAR YEARS 1978 AND 1979.

B) FORECASTS BEYOND 1980 ARE MORE PROBLEMATIC. BUT CURRENT CONTRACT TERMS APPARENTLY DO NOT PROVIDE SUFFICIENT INCENTIVE FOR EXPENSIVE HIGH RISK EXPLORATION IN NON-PRODUCING REGIONS, WHICH SUGGESTS SIGNIFICANT DECLINE IN PRODUCTION ABOUT 1980-81 UNLESS MAJOR NEW INVESTMENT IS UNDERTAKEN.

C) RAPIDLY INCREASING DOMESTIC ENERGY CONSUMPTION WILL CUT INTO INDONESIA'S ABILITY TO EXPORT PETROLEUM IN
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FUTURE. END SUMMARY.

2. IN CONSIDERING INFORMATION AND REQUESTS IN REFTTEL, EMBASSY OFFERS FOLLOWING COMMENTS FOR DEPARTMENT'S USE IN ITS EVALUATION OF FUTURE TRENDS IN INDONESIA'S PETROLEUM SECTOR.

3. 1977 PRODUCTION: NINETEEN SEVENTY-SEVEN PRODUCTION IS RUNNING AT RECORD HIGH OF SLIGHTLY LESS THAN 1.69 MILLION BARRELS PER DAY. PROVISIONAL FIGURES FOR AUGUST SHOW 1.67 MILLION BARRELS PER DAY.

4. FORECASTS 1978 AND 1979: FORECASTS OF FUTURE PRODUCTION LEVELS ARE SUBJECT TO NUMEROUS QUALIFICATIONS BASED ON VARYING ASSUMPTIONS. DIFFERENT SCENARIOS, EACH PLAUSIBLE, DEPENDING ON ASSUMPTIONS, COULD BE DEVELOPED. HOWEVER, EMBASSY'S BEST GUESS IS THAT PRODUCTION WILL SLIGHTLY INCREASE IN CALENDAR YEAR 1978 TO PERHAPS 1.75-1.85 MILLION BARRELS PER DAY AND SLIGHTLY FALL IN CALENDAR YEAR 1979 TO PERHAPS 1.6-1.8 MILLION BARRELS PER DAY. THIS FORECAST OF STABLE OR SLIGHTLY INCREASING OUTPUT OVER NEXT TWO YEARS IS BASED ON ANALYSIS OF CURRENT DEVELOPMENT ACTIVITIES IN BOTH CONTRACT OF WORK AND PRODUCTION-SHARING AREAS. THESE SUGGEST CALTEX PRODUCTION WILL AT LEAST HOLD CONSTANT TO 825,000-860,000 BARRELS PER DAY, AND DECLINES FROM SEVERAL PRODUCTION-SHARING FIELDS WILL BE OFFSET BY ADDITIONAL NEW DEVELOPMENT IN THE SAME CONTRACT AREAS, PLUS INCREASES OF MOBIL CONDENSATE FROM ARUN, PHILLIPS' PRODUCTION IN IRIAN JAYA, CONOCO IN SOUTH CHINA SEA, ETC.

5. THIS FORECAST OF PRODUCTION THROUGH 1978 AND 1979 LIMITED OFFICIAL USE

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ASSUMES CONTINUED BUOYANT MARKET DEMAND FOR INDONESIAN OIL. WITH NORTH SLOPE OIL NOW LANDING ON WEST COAST, INDONESIA'S MARKET SHARE THERE IS BY NO MEANS GUARANTEED. PERTAMINA TELLS US IT IS ALREADY EXPERIENCING SOME DIFFICULTY MARKETING OIL ON U.S. WEST COAST, BUT TO DATE HAS COMPENSATED BY INCREASING SALES TO JAPANESE MARKET.

6. DEVELOPMENT DRILLING: FOLLOWING DATA IS ILLUSTRATIVE OF WHAT WE BELIEVE TO BE TREND IN DEVELOPMENT ACTIVITY HERE. DEVELOPMENT FOOTAGE DRILLING IN JANUARY 1975 WAS ABOUT 155,000 FT. WITH ABOUT 40 RIGS OPERATING. AFTER PERIOD OF DECLINING TREND, DEVELOPMENT DRILLING HIT LOW OF 75,000 FT. WITH 23 RIGS IN OCTOBER 1976. SUBSEQUENTLY, THERE HAS BEEN STEADY INCREASE WITH AUGUST 1977 REGISTERING 150,000 FT. AND 37 RIGS OPERATING.

7. OIL COMPANY REPS, MIGAS AND PERTAMINA OFFICIALS TELL US THIS LEVEL AND KIND OF DEVELOPMENT ACTIVITY SHOULD BE SUFFICIENT TO ATTACH HIGH PROBABILITY TO FORECASTS OF MAINTAINING OR SLIGHTLY INCREASING CURRENT

PRODUCTION LEVELS OVER NEXT TWO YEARS.

8. FORECASTS OF PRODUCTION 1980 AND BEYOND: ESTIMATES OF PRODUCTION AFTER 1979 ARE MORE DIFFICULT, BUT UNLESS ONGOING LOW LEVEL OF EXPLORATORY ACTIVITY CHANGES SIGNIFICANTLY AND QUICKLY, WE ATTACH HIGH PROBABILITY TO SCENARIO THAT FEATURES SIGNIFICANT DECLINES IN PRODUCTION BEGINNING ABOUT 1980.

9. THIS PESSIMISTIC FORECAST IS CREDIBLE LARGELY ON BASIS OF CONTINUING LOW LEVEL OF EXPLORATION IN NEW AREAS. IN THIS RESPECT, DATA SHOW RECENT INCREASES IN SEISMIC CREW AND EXPLORATORY DRILLING MAY BE MISLEADING.

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10. EXPLORATORY ACTIVITY: OUR FIGURES SHOW 9 SEISMIC CREWS OPERATING IN AUGUST, 1977, COMPARED WITH TWO CREWS IN JANUARY, 1977. (JANUARY 1975 HAD 26 SEISMIC CREWS.) HOWEVER, WE UNDERSTAND THAT SINCE SEPTEMBER, 1976 AVERAGE OF ONLY 1 SEISMIC CREW PER MONTH HAS BEEN WORKING IN NEW AREAS.

11. DRILLING DATA EXHIBITS SIMILAR EMPHASIS ON EXPLORATORY ACTIVITY IN ALREADY PRODUCING AREAS. NUMBER OF EXPLORATORY RIGS HAS RISEN FROM LOW OF 10 IN MARCH OF 1977 TO 16 IN AUGUST, 1977 AND FOOTAGE DRILLED IS ABOUT 65,000 FT. IN AUGUST, COMPARED TO 35,000 FT. IN MARCH. (MOST ACTIVE MONTH IN PAST 2 AND HALF YEARS WAS JULY, 1975 WHEN 28 EXPLORATORY RIGS DRILLED ABOUT 90,000 FT.) HOWEVER, REPORTEDLY ONLY 1 EXPLORATORY RIG IS NOW ACTIVE IN NON-PRODUCING AREA COMPARED WITH 12 IN MARCH, SEPTEMBER, AND NOVEMBER, 1975.

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12. IMPLICATIONS OF LOW RISK EXPLORATION FOR PRODUCTION IN EARLY 1980'S: DISCUSSIONS WITH INDONESIAN OFFICIALS AND U.S. INDUSTRY CONFIRM CURRENT EXPLORATORY ACTIVITY IS CONCENTRATED LARGELY IN OR NEAR AREAS ALREADY PRODUCING COMMERCIAL QUANTITIES OF OIL AND THAT LITTLE OR NO. "HIGHER RISK" EXPLORATION IN NEW AREAS IS OCCURRING. IMPLICATIONS OF THIS TREND IS THAT ADDITIONAL SIZABLE DISCOVERIES ARE MUCH LESS PROBABLE (ALTHOUGH, PARADOXICALLY, INDONESIA'S RELATIVELY HIGH "SUCCESS RATIO" MAY ACTUALLY RISE AS THIS DYPE OF EXPLORATION FINDS SMALL RESERVOIRS THAT ARE COMMERCIALY VIABLE DUE TO THEIR PROXIMITY TO NEARBY INFRASTRUCTURE AND PROCESSING FACILITIES). UNLESS LOW LEVEL OF EXPLORATION IN NON-PRODUCING REGIONS PICKS UP, INDONESIA'S PROVEN RESERVES ARE UNLIKELY TO GROW SIGNIFICANTLY AND BASIS FOR INCREASING PRODUCTION IN FUTURE WILL BE ABSENT.

13. IN THIS SITUATION OF LOW GROWTH IN PROVEN RESERVES, THE RELATIVELY RAPID DECLINE RATES IN INDONESIAN FIELDS AND THE INTENSIVE DEVELOPMENT AND EXPLORATION OF CURRENT PRODUCING AREAS MAY WELL LEAD TO TREND OF DECLINING PRODUCTION BEGINNING ABOUT 1980, A TREND THAT WILL BE LIKELY TO CONTINUE UNTIL MAJOR EXPLORATORY LIMITED OFFICIAL USE

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ACTIVITIES IN NEW AREAS IS UNDERTAKEN.

14. SIGNIFICANT NEW EXPLORATION IN CURRENTLY NON-PRODUCING REGIONS WILL DEPEND ON MANY VARIABLES, BUT KEY APPEARS TO BE CONTRACT TERMS. CURRENT CONTRACT TERMS OFFER SUBSTANTIAL INCENTIVES FOR EXPLORATION AND DEVELOPMENT OF NEW FIELDS IN AREAS OF PROVEN OIL. HOWEVER, THESE TERMS APPARENTLY DO NOT OFFER SUFFICIENT INCENTIVES FOR MORE EXPENSIVE HIGHER RISK EXPLORATION IN NEW REGIONS NOT YET PRODUCING OIL.

15. DOMESTIC CONSUMPTION: INDONESIAN PETROLEUM EXPORTS APPEAR CERTAIN TO BE SQUEEZED BY RAPIDLY INCREASING DOMESTIC ENERGY CONSUMPTION THAT HAS RISEN BY ABMUT 13 PERCENT PER YEAR OVER PAST 5 YEARS. STRAIGHT LINE EXTRAPOLATION OF THIS GROWTH RATE MAY

BE QUESTIONED, BUT WE NOTE MINISTER OF MINES SADLI HAS PUBLICALLY FORECAST 11-13 PERCENT AVERAGE ANNUAL GROWTH THROUGH 1984. AT LEAST THROUGH EARLY 1980'S MOST OF THIS GROWTH IN DOMESTIC ENERGY USE MUST BE MET BY PETROLEUM. EFFECTS OF INTENTION OF SUBSTITUTE COAL AND GEOTHERMAL ARE LIKELY TO APPEAR BY MID-1980'S AT SOONEST. COMBINATION OF RISING DOMESTIC CONSUMPTION AND PROBABLE DECLINE IN PRODUCTION IN EARLY 80'S PRESENTS A KIND OF "SCISSORS EFFECT" THAT AT MINIMUM WILL PROBABLY CUT HEAVILY INTO INDONESIA'S PETROLEUM EXPORTS.

16. RESPONSE TO QUESTIONS REFTEL: WITH RESPECT TO SPECIFIC QUESTIONS ASKED IN REFTEL THAT HAVE NOT BEEN SUFFICIENTLY COMMENTED ON,

A,B, C, D: EMBASSY DATA IS INCOMPLETE. HOWEVER, FULL INFORMATION ON EXPLORATORY AND DEVELOPMENT LIMITED OFFICIAL USE

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DRILLING AND RESULTS BY COUNTRY IS AVAILABLE IN AMERICAN ASSOCIATION OF PETROLEUM GEOLOGISTS BULLETIN (AAPG). EACH YEAR OCTOBER ISSUE CONTAINS PREVIOUS YEAR'S STATISTICS IN DETAIL.

E: "SUCCESS RATIO" IS RELATIVELY HIGH IN INDONESIA, BUT AS INDICATED IN PARA 12, THE CONCEPT CAN BE DECEIVING. MOST INDONESIAN "SUCCESES" ARE RELATIVELY SMALL. BECAUSE OF THE NATURE OF INDONESIA'S GEOLOGY CONTINUED EXPLORATORY DRILLING IS REQUIRED TO MAINTAIN AND EXPAND RESERVE BASE.

F: AS DEPARTMENT AWARE, RESERVE ESTIMATES ARE NOT A FINITE RESOURCE CONSTRAINT ON PRODUCTION, AND DIFFERENCES IN RESERVE ESTIMATES OFTEN HINGE ON DEFINITIONAL AMBIGUITIES OF VARYING CONCEPTS OF RESERVES. WHAT IS IMPORTANT IS THAT INDONESIA'S PRODUCTION POTENTIAL IS NOW CONSIDERED MODEST WHEN MEASURED BY EXPECTATIONS OF EARLY 1970'S, AND BECAUSE OF LOW LEVEL OF PRODUCTION, RESERVE BASE PROBABLY NOT EXPANDING VERY RAPIDLY. "RESERVE TO PRODUCTION" RATION IS NOT USED TO FORECAST THE FUTURE ANNUAL PRODUCTION SINCE IT IGNORES ALMOST INEVITABLE TECHNICAL AND ECONOMIC CAUSED CHANGES IN RATE AT WHICH OIL IS LIFTED. MORE IMPORTANTLY, RESERVES THEMSELVES CHANGE CONTINUALLY IN RESPONSE TO NEW INVESTMENT, EXPLORATION, DEVELOPMENT, AND PRODUCTION, AS WELL AS PRICE LEVELS HOLDING IN MARKET.

17. TO SUMMARIZE OUR CURRENT EVALUATION OF FUTURE INDONESIAN PETROLEUM PRODUCTION:

A) WE EXPECT OIL PRODUCTION TO REMAIN ABOUT CONSTANT OR SLIGHTLY INCREASE DURING CALENDAR YEARS 1978 AND 1979.

B. FORECASTS BEYOND 1980 ARE MORE PROBLEMATICAL. BUT CURRENT CONTRACT TERMS APPARENTLY DO NOT PROVIDE LIMITED OFFICIAL USE

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SUFFICIENT INCENTIVE FOR EXPENSIVE HIGH RISK EXPLORATION IN NON-PRODUCING REGIONS, WHICH SUGGESTS SIGNIFICANT DECLINE IN PRODUCTION ABOUT 1980-81 UNLESS MAJOR NEW INVESTMENT IS UNDERTAKEN.

C) RAPIDLY INCREASING DOMESTIC ENERGY CONSUMPTION WILL CUT INTO INDONESIA'S ABILITY TO EXPORT PETROLEUM IN FUTURE.
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